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CENTRAL INTELLIGENCE AGENCY

25 February 1953

SE-37: PROBABLE EFFECTS ON THE SOVIET BLOC OF CERTAIN COURSES
OF ACTION DIRECTED AT THE INTERNAL AND EXTERNAL
COMMERCE OF COMMUNIST CHINA

THE PROBLEM

1. To examine the current status and effectiveness of controls on trade with Communist China.
2. To examine the short and long term effects on the capabilities of the Chinese Communist regime of : (a) a complete embargo; (b) a naval blockade, alone or combined with bombardment of transportation facilities in Communist China; and (c) a Chinese Nationalist effort at blockade and aerial bombardment.
3. To estimate Communist reactions to these measures.
4. This estimate does not consider whether the UN would cooperate in these measures, or what the reaction of other non-Communist powers would be if the US adopted these measures unilaterally.

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CONCLUSIONS

1. Since the imposition of Western trade controls in 1950, Communist China's total foreign trade has increased but imports from the West have sharply declined. In 1950, only one-fourth of Communist Chinese foreign trade was with the Soviet Bloc while three-fourths was with the West; in 1952, these proportions were almost reversed, 70 percent of Communist China's foreign trade being with the Soviet Bloc and 30 percent with the West. Present Western trade controls are an important, but not the only, factor in this sharp change.

2. Present controls on exports to Communist China have not prevented the build-up of Chinese Communist military strength which has depended primarily on overland imports from USSR. Moreover, Communist China's industrial output and internal transportation system have expanded since 1950, but probably at a greater cost to the rest of the Soviet Bloc and at a lower rate than if present trade controls had not been in effect.

3. A total embargo on non-Communist trade with Communist China would probably have no significant effect on the capabilities of the Chinese Communists to sustain military operations in Korea or to

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undertake military operations elsewhere. However, the reduction in imports resulting from the embargo probably would retard the expansion of Chinese Communist industry, principally with regard to planned increases in the production of consumers' goods. The adverse economic effects of an embargo on Communist China would probably decrease rather than increase with the passage of time.

4. A naval blockade of Communist China would not cut off seaborne trade unless it included Port Arthur and Dairen and unless the trade of Hong Kong and Macau with mainland China were controlled. Such a blockade would compel Communist China to rely on overland shipments from the Soviet Bloc for virtually all its imports. The overland transportation facilities connecting the USSR and Communist China are adequate to carry all the present traffic plus the tonnage now coming into Communist China by sea.

5. We believe that a blockade would not force a reduction of Chinese Communist military operations in Korea, but would make more difficult operations requiring large expenditures of materiel, either in Korea or elsewhere. A blockade would also retard the expansion of Chinese Communist industry to a greater extent than would an embargo, would place some additional strain on the internal

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transportation system, and would make Communist China economically more dependent on the USSR. The net political effect within Communist China of a blockade probably would not be significant.

6. Interdiction of key elements in the Chinese Communist rail and waterways system, in conjunction with a blockade, would have an extremely serious effect on Chinese Communist military capabilities and its economic potential. The problem of maintaining the regime's political control would be increased. Achievement of these significant results, however, would require a large scale and sustained bombardment campaign.

6a. A Chinese Nationalist effort to blockade Communist China and to bombard transportation facilities would have negligible effects on the Chinese Communist political and economic strength and military capabilities.

7. A total embargo on non-Communist trade with China would probably have no major effect on Communist courses of action. The Communists would probably attempt to create division within the non-Communist world by making attractive trade offers.

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8. A blockade of Communist China would not in itself compel the Communists to abandon their present policies in Korea or elsewhere in the Far East, and the adverse effects of a blockade on Communist China would probably decrease with time as adjustments were made to self-sufficiency within the Bloc.

9. If Communist China were blockaded, the Chinese Communists would almost certainly undertake military operations against the blockading forces with covert Soviet assistance. The USSR would probably test the resolution of the blockading forces by attempting to send ships through the blockade. We believe it unlikely that the USSR would regard incidents connected with the stopping of such ships as a casus belli, but the USSR would exploit such incidents to create dissension among the non-Communist powers.

9a. We believe that the sustained interdiction of Communist Chinese lines of communication, combined with a naval blockade, would seriously reduce Communist military capabilities in Korea and elsewhere in the Far East.

9b. We believe that such interdiction and blockade would not compel or induce the Communists to make peace in Korea.

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9c. The Chinese Communists would react to an interdiction by making a maximum air defense effort in China and Manchuria. Units of the Soviet Air Force in the Far East would participate in the air defense effort, particularly in Manchuria, ostensibly as a part of the Communist Air Force in China. The Communist Chinese would probably also employ their air capability against US/UN bases in the Far East.

9d. We believe that if the interdiction and blockade should threaten the economic and political stability of Communist China, Soviet aid to Communist China would probably be increased, if necessary to the point where Soviet forces would be committed against US forces over US/UN-held territories and adjacent waters.

9e. Communist China would almost certainly react to a Chinese Nationalist blockade effort by committing its air and naval forces against Chinese Nationalist blockading forces, and might launch air strikes against naval and air installations of Nationalist China. The Communist Chinese would probably react to a Chinese Nationalist effort to bombard lines of communications by strengthening their air defenses in East China and might retaliate by air action against territory held by Nationalist China.

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DISCUSSION

EXTENT OF PRESENT CONTROLS ON TRADE WITH COMMUNIST CHINA

10. Most of the nations outside the Soviet Bloc apply some form of export controls against Communist China. The US has maintained a total trade and shipping embargo against Communist China since December 1950, while Canada, Costa Rica, Honduras, Panama, and Japan have imposed restrictions almost as complete. The UK has blocked or restricted the shipping of a wide variety of strategic items, and, since July 1950, most of the Western European countries, as members of the Coordinating Committee (COCOM)^{1/} on East-West trade, have applied to Communist China the selective controls put into effect against the rest of the Soviet Bloc at the beginning of that year. A great number of other nations have taken action to restrict shipments to Communist China in accordance with the UN Additional Measures Resolution of May 1951. The Battle Act of 1951 served to reinforce the COCOM and UN embargoes by making the granting of US military and economic aid conditional upon the recipient country's application of strategic trade controls against the Soviet Bloc.

^{1/} Participants in the COCOM include Belgium, Denmark, France, West Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, and Portugal as well as the US, the UK, and Canada.

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11. There has been a wide variation, however, in the contraband lists and enforcement measures used by individual countries. Although the controls imposed by the UK and the continental COCOM countries are fairly comprehensive, they fall far short of the total embargo imposed by the US. Other nations have shown little uniformity in their interpretation of the UN resolution, which covers transport supplies and equipment of strategic value and items useful in war production as well as petroleum and purely military items. A number of Middle Eastern and Southeast Asian countries have made no more than a general commitment to deny strategic materials to Communist China, while India, Pakistan, Burma, and Ceylon have taken no action under the UN resolution.

12. Shipping controls have been particularly weak. All the COCOM countries prohibit sales of ships to Communist China and have agreed to impose restrictions on sales of ships to the rest of the Soviet Bloc. However, despite these restrictions, at least 33 vessels have been transferred to Soviet Bloc flags since October 1950. The US alone has imposed effective controls on ship construction, repairs, and bunkering. Only the US, Costa Rica, Honduras, and Panama prohibit vessels of their own registry from entering the Communist Chinese supply line. US controls, however, do not affect vessels of foreign registry which are owned and operated by persons residing

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within the US. Moreover, present controls do not prohibit the chartering of vessels to the Soviet Bloc. Although the greater percentage of chartered vessels do not touch a Communist Chinese port, many of these vessels are employed in Western European, South Atlantic, and Indian Ocean trade, thereby releasing Communist flag vessels for direct service to Communist China.

THE EFFECT OF PRESENT CONTROLS ON COMMUNIST CHINA

Effect on Foreign Trade

13. Imports from non-Soviet Bloc Countries. The value of the goods imported from non-Communist countries by Communist China rose to a peak in the first half of 1951 but then dropped sharply during the second half of 1951, when trade controls became more stringent, and have remained at a relatively low level through 1952. These imports are estimated at \$382 million in the first half of 1951, \$148 million in the second half of 1951, and \$135 million and \$155 million respectively in the first and second halves of 1952. The volume of imports from non-Communist countries fell from 746,000 tons in the first half of 1951 to 242,000 tons in the second half of 1951, and then rose to 270,000 tons in the first half of 1952 and 330,000 tons in the second half of 1952.

13a. The rise in tonnage reflects the increased import of

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such bulky commodities as ammonium sulphate and chemicals for heavy industry. A decline occurred in the imports of goods on which most non-Communist countries have imposed control, notably metals and machinery, and crude rubber. (Crude rubber imports have continued to come principally from Ceylon.) During the 18 months ending December 1952, raw cotton accounted for one-quarter, and crude rubber, pharmaceuticals, fertilizers, dyestuffs, and heavy industrial chemicals for one-half of Communist China's imports from non-Communist countries. Except for the decline in imports of metal and machinery from \$125 million in 1950 to \$14 million in 1952, the level and pattern of imports remained roughly the same.

11. Exports to non-Soviet Bloc Countries. Foreign exchange earnings from exports to non-Communist countries have declined steadily since their peak in the last half of 1950. These exports are estimated at \$400 million in 1950, \$335 million in 1951, and \$270 million in 1952. The volume of exports to non-Communist countries in 1952 is roughly estimated at 1.7 million tons (2.4 million tons in 1951), consisting largely of low-value bulky items such as coarse grains and soy beans. With the loss of markets for specialized items such as tung oil, bristles, egg products, and handicrafts, Communist China's exports to non-Communist countries have increasingly been limited to foodstuffs for Hong Kong and Malaya and grains and

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oilseeds for South Asia and Western Europe.

15. Imports from Soviet Bloc Countries. On the basis of Chinese Communist data which appears reasonably accurate, imports from the Soviet Bloc rose from \$100 million in 1950 to nearly \$1 billion in 1951. Lacking any conclusive evidence, we assume that imports in 1952 remained at roughly the same level as in 1951. Imports in both 1951 and 1952 consisted largely of military equipment and of commodities unavailable from non-Communist countries, notably petroleum, vehicles, machinery, metals, and metal manufactures. However, there were some imports from the Bloc of items currently being imported from the West, such as drugs, fertilizers, chemicals, and sugar.

15a. Soviet Bloc shipments to Communist China by sea are estimated at 700,000 tons in 1952 ^{1/} as against 350,000 tons in 1951. On the basis of partial cargo data, it is estimated that roughly one-fifth of this tonnage in 1952 consisted of petroleum products, two-fifths of metals, machinery, and other commodities controlled by the West. The value of seaborne imports from the Soviet Bloc is estimated at approximately \$200 million.

1/ Exclusive of approximately 50,000 tons of cargo picked up by Bloc vessels in non-Communist countries and shipped to Communist China. This cargo has been counted in Communist China's imports from non-Communist countries.

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15b. Overland imports from the Soviet Bloc are roughly estimated at \$800 million for 1952. The total volume of overland imports during 1952 is estimated to be 3.4 million tons. Military equipment and POL accounted for a large part of these overland shipments; in addition, there were substantial commercial imports of machinery, metals, and motor vehicles.

16. Exports to the Soviet Bloc. It is estimated that Chinese Communist exports to the Soviet Bloc were \$175 million in 1950 and \$350 million in 1951. These exports are believed to have risen sharply in 1952 and are very roughly estimated at \$500 million. It is believed that the Chinese Communists are attempting to increase these exports still further in 1953, apparently in an effort to reduce the trade deficit with the Soviet Bloc. Seaborne exports to the Bloc during 1952 are estimated roughly at 800,000 tons and apparently consisted largely of grain, soy beans, and ores. We are unable to estimate the volume of overland exports to the Soviet Bloc during 1952.

16a. Over-All Effects. Present trade controls appear to have been an important factor in the sharp change that has occurred in Communist China's foreign trade. In 1950, only one-fourth of Communist Chinese foreign trade was with the Soviet Bloc while three-

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fourths was with the West. In 1952, these proportions were almost reversed, 70 percent of Communist China's foreign trade being with the Soviet Bloc and 30 percent with the West. However, other factors would have tended to increase Soviet Bloc exports to Communist China even if Western trade controls had not existed. These factors are: (a) movement of Soviet military supplies in support of the Communist war effort in Korea; (b) shipment of non-military items to Communist China in fulfillment of Soviet commitments in the Sino-Soviet agreements of 1950 to provide economic assistance; and (c) the avowed policy of the Communist Bloc to achieve economic self-sufficiency.

ECONOMIC EFFECTS

17. Industrial Effects. The restriction of imports into Communist China as a result of present controls has not curtailed industrial output. In fact, because of the greatly increased level of commercial imports from the Soviet Bloc and the more effective use of available equipment and stocks in Communist China, industrial output has continued to expand. However, this expansion would probably have been greater if the present trade controls were not in effect.

18. Effect on the Railroads. The railroad transportation system of Communist China, while not expanding to the extent it would

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have without present Western controls, has steadily improved in capacity and performance and now appears to be carrying more freight tonnage than at any time in its history. Control measures have stopped imports from the West of locomotives, freight cars, parts for rolling stock, and rails. However, the Soviet Bloc has supplied these items in sufficient quantity to permit, despite the losses in Korea, the maintenance of existing equipment and continued expansion of the rail network. Because such equipment is scarce in the Bloc, its diversion to Communist China represents a strain on Bloc transportation facilities.

19. Effect on Other Internal Transportation. The large expansion of motor freight movements which has occurred in Communist China during 1952 has been made possible largely by imports of Soviet trucks and petroleum. However, the traffic in smuggling of parts for motor vehicles continues to be considerable, indicating that Soviet Bloc assistance has not kept pace with expanding Chinese Communist requirements and that Western controls are imposing some cost on Communist China in this regard. Coastal shipping has not been appreciably affected by Western controls since most non-Communist countries permit their flag vessels to operate in the Chinese Communist coastal trade. Moreover, during the last year the Chinese Communist demand for foreign coastal shipping seems to have slackened, and it is

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possible that an increasing part of Chinese Communist requirements for river and coastal shipping capacity is being met by their own fleet.

20. Over-All Economic Effects. During the last two years, the Chinese Communist regime has made rapid progress in economic reconstruction, particularly in the restoration and expansion of its industrial capacity. This economic expansion occurred despite the curtailment of trade with the West. However, the reduction in Communist China's net receipts from foreign trade must be viewed as a deduction from the resources that otherwise would have been available to the government. Without Western trade restrictions, Communist China's economic progress probably would have been greater than it actually was, and it certainly could have been accomplished at less cost to the rest of the Soviet Bloc.

MILITARY EFFECTS

21. Ground Forces. Although Western trade controls have made it difficult for the Communists to acquire certain important items such as antibiotics and other medical supplies, communications equipment, and rubber products, the Chinese Communist Ground Forces have not been adversely affected by Western trade controls. Communist China produces the bulk of its own light ground force equipment and

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supplies. The materials required for China's munitions industry are relatively small in tonnage and are for the most part produced domestically. The only important import requirements are for copper and zinc, which are supplied in adequate quantities for the most essential uses by the USSR. In addition, the USSR is providing most of the heavy military equipment, virtually all POL, and some light equipment and supplies.

22. Air Force. Since the USSR provides Communist China with virtually all aviation equipment and supplies including avgas and jet fuel, present Western controls on strategic materials have not affected the capabilities of the Chinese Communist Air Force. The Air Force has continued to expand in aircraft strength and capabilities throughout the period of present Western controls.

23. Navy. Since a large part of the Chinese Communist Navy is composed of former foreign naval vessels, present Western controls on strategic materials have almost certainly hindered the Chinese Communists in their efforts to put back into service and maintain their naval vessels. As far as is known, the USSR has supplied at most only a few small warships to the Chinese Communists, forcing them to rely almost entirely on those ships taken over from the Nationalists.

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INTERNAL POLITICAL EFFECTS

24. Western trade controls have not appreciably affected the regime's ability to consolidate its political position. The controls have been cited by the Communists in domestic propaganda as an additional indication of the implacable hostility of the West.

PROBABLE EFFECT OF A TOTAL EMBARGO ON NON-COMMUNIST TRADE WITH COMMUNIST CHINA ON THE CHINESE COMMUNIST ECONOMIC AND POLITICAL STRENGTH, AND ITS MILITARY CAPABILITIES.

25. Introductory Note. The imposition of a total embargo by the entire non-Communist world would presumably extend to both trade and shipping. The implementation of such an embargo would presumably include measures to prevent the transfer or charter of non-Communist shipping to Communist China, the denial of bunkering and servicing in non-Communist ports of ships bound for Chinese Communist ports, and the transshipment of non-Communist goods directly or indirectly to Communist China from other countries in the Soviet Bloc. The following factors would prevent effective enforcement of a complete embargo:

(a) Although transshipment might be controlled to a limited extent by placing quantitative controls on goods exported from the West to Eastern Europe and the USSR, effective prevention of transshipment would be impossible so long as trade controls

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applied against these countries are less rigid than those applied against Communist China. Such transshipment could only be stopped completely, and Communist China denied all non-Communist commodities if trade with the entire Bloc were embargoed.

(b) As indicated in section I, several countries are not now cooperating with the limited embargo declared by the UN, and most Western nations are now strongly opposed to further extension of trade controls against the Soviet Bloc and Communist China. Even should the UN recommend a full embargo on trade with Communist China, it is probable that various Asian and Middle Eastern nations would not cooperate because of their "neutralist" foreign policies and the economic importance of trade with Communist China.

26. [See Paragraph 4 of the Problem.]

SHORT-RUN EFFECTS

27. Effect on Trade. The direct impact on imports of a total embargo would depend on the extent to which the Soviet Bloc was able and willing to: (a) make up for the loss of Western shipping (including that now chartered by the Communists) now serving the China trade; and (b) supply the specific commodities denied by the West.

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28. The lack of reliable data on Communist China's foreign trade and on the Soviet Bloc's capabilities makes it impossible to estimate with precision the impact of a total embargo on Communist China. The following projection is based on the estimated level of trade during 1952:

a. Assuming a continuation of present controls, it is estimated that the total value of Communist China's imports from the non-Communist world in 1953 will remain at the 1952 levels, \$290 million. As compared with 1952, however, imports are expected to include a higher proportion of heavy bulk, goods, particularly chemical fertilizer. As a result of these changes in composition, the volume of Communist China imports from the non-Communist world in 1953 is projected at 660,000 tons as compared with 560,000 tons in 1952.^{1/}

b. Exports to the West from Communist China are expected to be the same as in 1952, or 1.7 million tons valued at \$270

- 1/ (1) Raw cotton imports are expected to decline in value from \$103 million to \$50 million and in volume from 86,000 tons to 50,000 tons. Prices are lower, domestic production is increasing, and there has been little interest thus far in the Pakistan market in raw cotton purchases for 1953.
- (2) Imports of rubber are estimated to increase from \$22 million to \$45 million, or the level called for in the Ceylon-Communist China barter agreement.
- (3) Imports of fertilizer are estimated to increase by 50 percent in volume and value in view of Chinese Communist efforts to increase production of industrial crops.

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million.

c. It is unlikely that the present rate of smuggling could be increased significantly inasmuch as a complete embargo would necessarily involve a general strengthening of controls. Clandestine imports would tend increasingly to consist of items of small bulk and high value, such as drugs and motor vehicle parts, but the total volume may be assumed to be about 40,000 tons, the level projected for 1953 under the assumption of existing controls.

On the basis of the above projections, the theoretical annual loss to Communist China as a result of a complete embargo would be 660,000 tons of imports valued at \$290 million and the earnings from 1.7 million tons of exports valued at \$270 million.

29. The rest of the Soviet Bloc could assume the entire burden of the costs imposed by an embargo and could supply to Communist China all of the commodities it otherwise would have received from the West. Such commodities are available in the Bloc and transport facilities would not impose an absolute limit on their shipment. The degree to which the Soviet Bloc would compensate for the loss of imports from the West would depend in general on the Soviet appraisal of the rela-

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tive advantages of using resources in Communist China as opposed to the resources elsewhere in the Soviet Orbit, including the USSR itself.

a. The Soviet Union has a strong interest in maintaining Chinese Communist strength and for this reason would probably assign a high priority to those Chinese Communist import requirements that have a significant effect on Chinese Communist military capabilities. Much lower priorities would be assigned to supplying the remaining commodities Communist China formerly imported from the West. It is probable, therefore, that such commodities would be supplied only to the degree that the burden thus imposed on the rest of the Soviet Orbit would be relatively small. On the basis of these considerations, it is roughly estimated that the Bloc would supply virtually all the iron and steel, machinery and metals, and drugs; most of the heavy industrial chemicals, dyes, and paper; and only part of the crude rubber, chemical fertilizer, and other miscellaneous commodities. The Soviet Bloc would probably not compensate for any of the raw cotton, gunny bags, and some miscellaneous commodities. We estimate, therefore, that in making up the imports lost through imposition of an embargo, the Soviet Bloc would probably increase its annual

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exports to Communist China by about 352,000 tons valued at \$130 million, reducing the net import loss to about 308,000 tons.

b. If these additional imports from the Bloc were carried by sea, total seaborne imports from the Bloc in Bloc vessels would amount to approximately 1,050,000 tons in 1953. Even with the reduction in cargo-carrying capacity caused by controls on bunkering and other services to ships engaged in trade with Communist China, the Soviet Bloc merchant fleet almost certainly has the capability to carry this tonnage to Communist China, particularly so long as Western ships remain available for charter to meet Soviet Bloc shipping requirements elsewhere.

29a. An embargo would also result in an increase in Communist China's exports to the Soviet Bloc but a decrease in its total exports. Because of the increased transport costs involved and the nature of the commodities, it is probable that it would not be worthwhile for the Communists to divert to the European Soviet Bloc a large part of the 1.7 million tons of commodities that Communist China now exports to the West. However, the Soviet Bloc probably

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would increase its imports from Communist China at least to the level necessary to match the value of the increased Bloc exports to Communist China.

30. On the basis of the above highly speculative estimates, an embargo would reduce the volume of Communist China's total imports in 1953 by 300,000 tons and the value by \$130 million. This would represent a reduction of approximately 10 percent in both the volume and value of Communist China's total imports. Even if these estimates of Communist China's imports from the Soviet Bloc during 1953 are somewhat high, it is evident that imposition of a complete embargo on Western imports would not effect a major reduction in the present total volume of imports. Communist China's total exports would be reduced by \$130 million, or by more than 15 percent. The proportionate reduction in the volume of exports would be greater.

31. A total embargo on non-Communist trade with Communist China would not affect the flow of purely military items and petroleum, all of which (except for limited quantities brought in by smuggling) now come from the Soviet Bloc. Military considerations would almost certainly determine the relative priority of compensating shipments from the Soviet Bloc and, consequently, goods related to military operations would probably be least affected by a complete embargo.

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32. Economic Effects. The Chinese Communist economy has already made considerable progress in adjusting to decreased availability of western goods. The main effect on the Chinese Communist economy of a complete embargo would be, therefore, to force more rapid adjustments to a pattern already being developed. Although the reduction in imports resulting from the embargo probably would retard the planned expansion of Chinese Communist industry, principally with regard to planned increases in the production of consumers' goods, these losses in output would in part be offset by the increased availability for domestic consumption of some commodities that formerly were exported to the West. The loss of foreign flag shipping for domestic coastal services would reduce coastal shipping capacity, but Chinese Communist shipping, which now carries the bulk of this trade, and the North-South rail lines could absorb the load now handled by foreign flag ships. Finally, with imports and production of some consumer goods reduced and non-Communist markets virtually eliminated, the government would be confronted with a sizable loss of revenue. These losses, however, would be minor in relation to the total national income and to total Chinese Communist budgetary expenditures.

33. Military Effects. A total embargo would probably have no significant effect on the capabilities of the Chinese Communists

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to sustain military operations in Korea or to undertake military operations elsewhere.

34. Internal Political Effects. A total embargo would not appreciably affect the internal political strength of the Chinese Communist regime.

35. Burden on the Rest of Bloc. A total embargo would increase the economic burden that Communist China imposes on the rest of the Soviet Bloc. This burden cannot be precisely estimated, but the following factors may be noted:

a. The rest of the Soviet Bloc would, to an even greater extent than before, be exporting to Communist China many commodities that it normally imports for its own use, and would be receiving from Communist China commodities that are less essential to its needs.

b. Available trade data, based largely on Chinese Communist sources, suggest that in 1952 Communist China had an import surplus of approximately \$500 million with the rest of the Bloc. This surplus is presumed to have been financed for the most part by Soviet grants or credits. While it has been estimated that under a total embargo there would be no increase in the trade deficit, this estimate does not take account of

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the probable increase in transport costs which might be borne by the Soviet Bloc.

c. The increase in traffic over the Trans-Siberian railroad since the beginning of the Korean war has required a diversion of rolling stock from other rail lines in the Soviet Bloc. However, so long as the Bloc has access to sufficient shipping capacity to carry the estimated increase in exports to Communist China, a total embargo would presumably impose no further strain on the Soviet rail system.

LONG-RUN EFFECTS

36. Economic Effects. Assuming that imports from the Soviet Bloc are maintained at least at the levels projected for 1953 in paragraph 20 above, the adverse economic effects of a complete embargo on Communist China would probably decrease rather than increase with the passage of time. The loss of cotton and other raw materials would be made up in large part through the development of domestic production or of domestically produced substitutes. Chinese Communist plans for the continued expansion of heavy industry would not be appreciably affected since such plans even now are dependent almost wholly on imports of capital goods from the Soviet Bloc and on increased domestic production of capital goods. However, greater

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emphasis probably would be placed on the expansion of rail transport links with the Soviet Union at some expense to other aspects of the development program. Finally, in view of current estimates of the rates of growth of the gross national products of the USSR and European Satellites, the ability of the Soviet Bloc to provide capital goods and to bear the costs of providing such goods will increase significantly over the next 2-5 years.

37. Continued denial of Western sources of supply would pose a severe problem for the Chinese Communist railway system, which would almost certainly decline in capacity and efficiency unless steps were taken to offset the progressive deterioration of equipment. This would place some burden on the Soviet Bloc, whether it sought to supply the necessary rails, locomotives, and freight cars itself, or attempted to restore Manchurian capacity for rolling steel rails and to expand the production of freight cars and locomotives in China. However, it is probable that the USSR would be able to supply minimum Chinese Communist requirements without serious repercussions in other portions of the Soviet Bloc economy.

38. Military Effects. Over a longer period, a total embargo would not reduce present Chinese Communist military capabilities but it might hinder an expansion of those capabilities.

39. Internal Political Effects. Over a longer period, the em-

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bargo would probably not significantly reduce the effectiveness of the regime's control over the Chinese people.

40. Effect on Sino-Soviet Relations. A total embargo would tend to increase the possibilities of Sino-Soviet friction. Should the Soviet Union be unwilling to continue to accept indefinitely the increased burden required to support Communist China under a total embargo, the adverse effect of the embargo on Communist China would be increased. Even under the projected level of Soviet exports to Communist China, the Chinese Communists might feel that their needs should be given higher priority. Over a longer period, Communist China will continue to make some progress in developing its industrial capacity and in the further strengthening its armed forces on the basis of Soviet assistance and equipment. To some degree, this increase in Communist China's strength would increase Communist China's bargaining power with the USSR. At the same time, however, Communist China's complete military and economic dependence on the Soviet Bloc would tend to force a progressive integration of Communist China's economic and military planning with over-all Bloc planning, and development. The net result of the above trends would probably be some decrease in Communist China's ability to control the pattern of development of its economy, its military strength, and its foreign policies.

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PROBABLE EFFECTIVENESS OF A NAVAL BLOCKADE IN INCREASING THE
PRESSURE ON COMMUNIST CHINA

Including Port Arthur and Dairen

41. Effect on Chinese Communist Trade. Whereas an embargo would operate only against non-Communist trade and shipping, a naval blockade would interdict smuggling and Soviet Bloc seaborne shipments as well, thus restricting Communist China's imports almost entirely to those which could be brought overland from the European Soviet Bloc.^{1/} However, so long as trade to the Soviet Bloc was not embargoed, Communist China could obtain many essential Western items overland from the Bloc. On the basis of our tentative projection of Communist China's imports under present controls, the resultant direct loss in imports as a result of a naval blockade would amount to 700,000 tons of imports from non-Communist countries, both legitimate and smuggled, plus 700,000 tons from Soviet Bloc sources. Likewise, the blockade would stop Communist China's seaborne export trade, estimated in 1952 to have been about 2.5 million tons, of which 1.7 million tons were exported to non-Communist countries and .8 million tons to the Soviet Bloc.

^{1/} It is estimated that a naval blockade of the China coast, including the Soviet-controlled Manchurian ports of Dairen and Port Arthur, would cut off 75-90 percent of the tonnage which would otherwise have come in through smuggling and Soviet Bloc seaborne shipment. It is believed that such a blockade could be set up so as to avoid effective Chinese Communist air and naval counteraction. If Soviet or other Communist shipping attempted to run the blockade under Soviet naval escort -- a possibility discussed in Section VI -- achievement of the interdiction effect estimated here would obviously depend on the willingness of the US and other blockading powers to risk an open clash with the Soviet escort vessels.

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42. A naval blockade would also presumably operate against Communist China's coastal trade. Although a blockade would not be effective against local inshore coastal shipping, it would virtually eliminate Communist China's substantial ocean-going coastal traffic which is estimated to be 9,100 tons per day or 3.3 million tons per year. The most important components of this traffic are the movements of coal, POL, and manufactured goods between Dairen, North China, and Shanghai and the exchange trade of manufactures for foodstuffs between Shanghai and South China.

43. Against the loss of seaborne imports amounting to 1.4 million tons per year must be balanced the likely increase in trade with the Soviet Bloc by overland routes. The amount of imports, that would be replaced, particularly those coming formerly from non-Communist countries, would depend on the capability of the European Soviet Bloc to increase its exports to Communist China and on the capacity of the Trans-Siberian Railway and the inland transportation facilities of Communist China to handle increased tonnages. To a lesser extent, the increase in European Soviet Bloc exports to Communist China would depend upon the level of Communist China's exports that could be maintained via overland routes.

43a. Overland Soviet imports to Communist China in 1952 were

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estimated to total 3.4 million tons (9,300 tons per day) of which 2.4 million tons (6,500 tons per day) came eastward over the Trans-Siberian railroad. This level of traffic is considerably less than the capacity of the Trans-Siberian railroad available to supply Communist China and North Korea, estimated to be 16,000 tons per day. It is thus probable that the total tonnage now imported into China by sea could be carried by the Trans-Siberian railroad. In this event, however, the cost to the Soviet Bloc of supplying these commodities would be substantially increased. Additional rolling stock would have to be diverted from other rail lines in the Soviet Bloc or a reduction made in the volume of commodities moving to the Soviet Far East.

43b. The additional burden on the internal transportation system of Communist China resulting from the blockade would create a more serious problem. It is estimated that 10 percent of Communist China's freight cars and 18 percent of its locomotive park would be required to carry the total tonnage now imported into Communist China by sea plus the tonnage now carried by the ocean-going coastal trade. The strain would be particularly acute with respect to the transport of petroleum, roughly estimated at 1 million tons per year, which would have to be carried by land to Manchuria,

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Korea, and China. However, the Soviet Bloc, within a period of about six months, would be capable of offsetting this additional burden by making available to Communist China a considerable amount of standard gauge rolling stock which the Soviet Bloc now has in excess.

43c. Although the Soviet Bloc would probably attempt to provide Communist China with all critical items formerly obtained from the West, in addition to continuing present shipments, the Bloc probably would not replace entirely all of Communist China's imports lost because of a blockade. Therefore, the actual additional burden on both the Trans-Siberian railroad and the internal transportation system of Communist China would not approach the maximum indicated above. In particular, the Soviet Bloc probably would replace only two-fifths of Communist China's rubber imports, one-half of the industrial chemicals, one-fourth of the miscellaneous commodities such as wool and rayon, and little or none of Communist China's imports of raw cotton, ammonium sulfate, paper, sugar, and gunny bags. On this basis the total of Communist China's imports coming overland from the Bloc would probably be on the order of 3.2 million tons per year compared with the present 2.4 million tons.

43d. Overland exports to the Bloc would also probably increase. However, it is tentatively estimated that because of the

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increased costs of rail shipments only \$170 million of the projected seaborne exports of \$370 million would be carried overland to the USSR in the event of a blockade. Given this situation, there would be no increase in Communist China's trade deficit with the Soviet Bloc.

44. Economic Effects. A naval blockade would have a greater effect on the Chinese Communist economy than would an embargo. The interference with Chinese Communist plans would be increased, additional strains would be placed on internal transport, and further gains from trade and further budgetary revenues would be lost. The reduction in imports of fertilizer and industrial chemicals would adversely affect plans to increase output of industrial crops and some consumers' goods. The sum of these losses would, however, be small in relation to Communist China's total national income or total budgetary expenditures.

45. Political Effects. Internal controls, already strong in Communist China, could prevent any serious increase in overt political opposition to the regime. However, the administrative burden of these controls would increase. On the other hand, a blockade would provide the regime with a plausible excuse for its failures and a new propaganda theme to mobilize popular support for its policies. The net political effect within Communist China of a

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blockade would probably not be significant.

46. Military Effects. A naval blockade would not directly affect the movement of military supplies from the USSR, most of which are being brought in by overland routes. Nevertheless, the denial of seaborne imports and of coastal shipping facilities would probably impose some curbs on the importation and internal distribution of military supplies because of congestion of land routes. Meanwhile, the impact of a naval blockade on the economy as a whole would reduce the totality of domestic resources which could be mobilized in support of the war effort. The reduction in Chinese Communist military capabilities would not be great enough to force a reduction of the Chinese Communist military commitment in Korea. It would, however, make more difficult offensive operations requiring large expenditures of materiel, either in Korea or elsewhere.

47. Effect on Sino-Soviet Relations. A naval blockade would tend to increase the possibilities of Sino-Soviet friction to a greater extent than would an embargo. Although Soviet exports to Communist China would be reduced under a blockade, as compared with an embargo, the cost of providing these commodities, because of transport difficulties, would be greater and the possibility of

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obtaining increased imports from Communist China would be less. Moreover, a blockade even more than an embargo might decrease Communist China's capabilities for independent action as a consequence of the increased dependence upon the Soviet Bloc for economic and military support.

EXCLUDING PORT ARTHUR AND DAIREN

48. A naval blockade would almost certainly be ineffective if Dairen and Port Arthur were excluded. These ports together are believed capable of handling about 45,000 tons a day, or many times the estimated total daily seaborne imports of all of Communist China at present. The readjustment of internal distribution necessitated by the blockade of all other seaports would impose additional strains on the Chinese Communist railway system but these strains would probably not be critical. With regard to rail and road capacity out of Dairen and Port Arthur, the Port Arthur-Mukden railway has a present estimated capacity of about 15,000 tons a day each way, while highways from Dairen to Harbin and Antung have estimated capacities of 4,800 tons each way. Although these combined rail and road capacities are far below the rated capacities of the ports themselves, they are still far more than sufficient to handle Communist China's present total seaborne imports.

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PROBABLE EFFECTS OF BOMBARDMENT OF LINES OF COMMUNICATIONS IN
CONJUNCTION WITH THE BLOCKADE

Vulnerable Elements of the Chinese Communications System

49. Communist China is heavily dependent on certain critical rail and inland waterways facilities for the execution of military movements and the maintenance of the industrialized and cash crop sector of its economy. This dependence is less within Manchuria, where the existence of a well-integrated and fairly diversified rail net and of a number of good highways provides some flexibility in transportation arrangements, and at the other extreme, in vast areas of rural China, notably in the West, which have such poor communications with the outside world as perforce to remain largely self-sufficient. In general, however, the maintenance of the present level of Chinese Communist military and economic activities depends on continued availability of a heavily utilized rail and water network which contains a number of bottlenecks and lacks a supplementary road system capable of carrying heavy traffic on an all-weather basis. These bottlenecks, all within bombing range of US land and carrier-based aircraft, provide some 200 rail targets for bombing and some 26 water targets for aerial mining.

50. These potential targets can be divided into five general categories, as follows:

1/

See attached map.

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a. Rail and water links with the Trans-Siberian Railway.

At present there are only three routes by which heavy overland shipments from the USSR can be brought into Communist China and over which Communist Chinese shipments can move to the USSR: (1) the rail line from Man-chou-li on the Western border; (2) the rail line from Sui-fen-ho on the east to the rail net around Harbin in central Manchuria; and (3) the Sungari River, which links Harbin with a Trans-Siberian railway on Manchuria's northern border. An additional rail line is in operation from the Trans-Siberian Railway near Vladivostok in North Korea, where it joins the Korean rail net, which in turn has a connection at Tu-Hen with the Manchurian rail system. In the event of a naval blockade of the China coast, these already important routes would obviously be of critical significance. No alternate rail routing is possible over the first 400 miles from Man-chou-li to Harbin, while the first junction point on the Sui-fen-ho-Harbin line is 50 miles from the border.

b. The rail link between Dairen and Port Arthur and central Manchuria. The rail line linking Port Arthur and Dairen with Mukden and Harbin would be of critical importance in the event that a naval blockade was established excluding these ports. Although a supplementary road system is available, this road

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system accounts for less than a quarter of a haulage capacity out of these two ports, all of which would be required to compensate for the blockade of other Chinese seaports. No alternate rail routes are available for the first 150 miles from the terminus at Port Arthur.

c. The rail link between Manchuria and North China.

Nearly all rail traffic between Manchuria and the rest of China must travel over a 275-mile stretch of coastal trackage between Chin-chou and Tientsin. Effective interdiction of this route would sever the main transportation link between Manchuria and the rest of China.

d. The Chu-chou-Heng-yang rail link in South China.

All rail traffic into south China from the rest of the country must pass over a 75-mile stretch of railroad between Chu-chou and Heng-yang. Effective interdiction of this stretch would not only sever the major inland transport route between Canton and central and northern China but would also cut the only rail line which would permit the movement of supplies from north and central China in support of the Viet Minh forces in Indochina.

e. Rail and water targets in central China. There are a number of important rail and water transport targets in central

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China. A 70-mile stretch of trackage between Ta-Hsien and Chinan, including an important rail bridge over the Yellow River, is used by east-west traffic as well as by the main coastal railway. Other rail targets include the Yellow River bridge north of Cheng-hsien on the Paiping-Hankow-Kowloon route, the Pu-chen-Nanking railroad ferry on the Paiping-Shanghai route, and the Yangtze River ferry crossing at Wu-chang. The most important waterway targets are along the Yangtze and Shi (West) Rivers, which together with the Sungari River in Manchuria are estimated to carry three-quarters of the 25 to 35 million tons of cargo carried annually on Chinese waterways. Although these targets are not individually as important as those noted previously, their effective interdiction would place a heavy strain on an already overloaded transportation system, with serious economic and possible military results.

POTENTIALITIES AND DIFFICULTIES OF A BOMBING CAMPAIGN

51. In the event of a naval blockade of the China coast including Port Arthur and Dairen, effective interdiction of this target system would have an extremely serious effect on Communist China military and economic potential. It is probable that a prolonged disruption of the main surface routes of entry from the USSR into Manchuria would

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critically reduce Chinese Communist offensive capabilities in Korea and seriously reduce their defensive capabilities in Korea. Some supplies could be sent from the USSR directly into North Korea by means of the important alternate route from the Soviet Maritime Province into Northeast Korea at Tumen. However, effective and sustained interdiction of all bridge crossings over the Yalu and Tumen rivers, in conjunction with interdiction of transportation facilities in Manchuria and China, would impose a severe strain upon Communist logistic capabilities in Korea to the point where their offensive capabilities would be severely curtailed, if not eliminated. Interdiction of the key Chu-chou-Heng-yang rail link into south China would gravely handicap Communist military operations in Southeast Asia. Effective, sustained attacks on the vital rail link between Manchuria and China proper, coupled with attacks on selected targets within Central China would put severe pressures on the Chinese economy. There are indications that the Mukden-Shanhaikuan line has been supplemented by the restitution of the Chinghsien-Kupeikou line, creating a double link between China and Manchuria. Taken together, effective and sustained interdiction of all these routes would progressively undermine Communist China to a point where its military capabilities would be critically reduced and the difficulties of maintaining the regime's economic and political controls would be increased.

52. Actual achievement of such results, however, would involve serious difficulties. Communist China already possesses a substantial

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air defense potential as a consequence of substantial Soviet assistance in supplying equipment, guidance in operational procedures, and in some instances Soviet personnel. At present, the Chinese Communists are estimated to possess in the Mukden-Antung area of Southern Manchuria an effective air defense capability against daylight bombing missions but weak to ineffective defense under conditions of limited visibility. In China proper, air defense capabilities are probably considerably less because of the extensive area involved and the lack of sufficient quantities of equipment. However, the USSR could bolster Chinese Communist air defenses in a very short time by committing Soviet air units which could operate ostensibly as an integral part of the Chinese Communist air Force. Therefore, either prior to or on the initiation of a large-scale interdiction campaign it undoubtedly would be necessary for the US/UN Air Forces to direct a large-scale air campaign against Chinese Communist air defenses. Even if these air defenses were reduced to relative impotency, it would be necessary to continue heavy attacks on air bases to prevent reinforcement by the USSR.

53. In addition to the necessity for an air campaign against the enemy air defenses, a successful interdiction of Communist Chinese lines of communications would require a very large-scale and long-sustained bombing effort. On account of the relative rapidity with

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which rail targets can be repaired, continuing attacks would be needed to effect anything more than a temporary delay. The effectiveness of the mining of inland waterways would be seriously limited by the fact that most of the traffic is carried in small shallow draft wooden vessels.

CHINESE NATIONALIST CAPABILITIES TO BLOCKADE THE CHINA COAST AND TO CONDUCT AIR STRIKES AGAINST LINES OF COMMUNICATIONS ON THE CHINA MAINLAND

A. PRESENT NATIONALIST CAPABILITIES

53a. Blockade. The Chinese Nationalist Navy currently has a total of 38 vessels with sufficient range to be used in blockading operations along the entire China Coast. In addition, there are more than 100 smaller types that could be used in blockading a coastal area within a range of 400 miles of Taiwan. The Nationalist Navy now possesses a low combat capability because of poor staff planning, poor maintenance of vessels and equipment, and serious deficiencies in communications, surface-firing, AA-firing, and radar and sonar detection.

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53b. At present, the Nationalist Navy, supported by aerial mining operations and bombing of ocean-going vessels by the Chinese Nationalist Air Force (CNAF), probably has the capability to intercept about 20% of all sea-going trade^{1/}, provided no Chinese Communist naval or air resistance were offered. If the Chinese Communist Navy offered resistance to a Nationalist blockade, the Nationalist Navy would be forced to withdraw from the Yangtze River to a point south of Ningpo, thus drastically reducing the Nationalist Navy's blockade effectiveness. If the Chinese Communist Air Force were committed to nullifying the blockade, the Nationalist Navy would probably be unable to maintain even a blockade of the Formosa straits.

53c. The total effect of a blockade by the Nationalist Navy as presently constituted would thus be dependent upon the degree of naval and air resistance offered to the blockade by Communist China. Assuming vigorous Chinese Communist naval and air resistance, a Nationalist blockade effort would at present have only an insignificant effect upon seaborne shipping to Communist China. Even under these circumstances, however, a Nationalist blockade effort would result in a diversion of Chinese Communist air units, and would require the commitment to action of Chinese Communist naval units.

53d. Air Strikes. The Chinese Nationalist Air Force (CNAF) currently has a total of 167 combat aircraft (70 F-47 fighters; 56

^{1/} This would entail (1) the blockading of nine mainland ports capable of handling vessels of 1,000 GRT or larger, in the area between and including the Pearl River Estuary (Whampoa), and the Yangtze River (Shanghai), and (2) the interception of coastal traffic in the area between Hong Kong and Hangchow.

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F-51 fighters; 21 B-25 light bombers; and 20 B-24 medium bombers). The CNAF has a low combat capability because it lacks jet aircraft, has shortages of spare parts, equipment, and supplies, including POL, and has had limited operational experience and training, particularly in jet and bombardment type aircraft.

51c. If its total combat air strength were committed to air strikes against the mainland, the CNAF initially could inflict some damage on Chinese Communist rail lines and other ID's in East China. However, because of CNAF logistic and maintenance deficiencies and a Chinese Communist capability for counter-air operations, CNAF air attacks against the mainland would be limited in duration and effectiveness. Therefore, the effect of such operations would probably be only to disrupt temporarily transportation systems in east China.

B. POTENTIAL NATIONALIST CAPABILITIES

53f. Blockade. If given sufficient materiel and training support, and complete US staff planning for all blockading operations, the Chinese Nationalist Navy could within a period of about _____ months develop the capability to intercept about _____ percent of all ocean

1/ Shanghai, Canton, and the entire rail system between these cities, including the vital Chu-chou-Heng-Yang rail link, is within the range of all CNAF combat aircraft.

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shipping and _____ percent of all coastal trade. Though reduced in effectiveness, a Nationalist blockade effort would nevertheless cause a considerable diversion of Chinese Communist air units, cut off a portion of Communist China's seaborne trade, and require the commitment to action of Chinese Communist naval units.

53g. Air Strikes. If sufficient materiel and training support ^{1/} were given, the CNAF within a period of about eighteen months could: make one jet fighter group operational; develop a tactical air capability (including aerial mine laying against inland LOC's); utilizing F-47 and L-26 aircraft; develop a jet photo reconnaissance capability for surveillance of Communist targets in east China; and establish a 24-hour operational air defense system with ground-controlled intercept (GCI). However, the net effect of this increase in CNAF offensive capabilities would depend upon the developments that had taken place concurrently in Chinese Communist air defenses.

PROBABLE COMMUNIST REACTION TO THE IMPLEMENTATION OF THESE MEASURES

A. COMPLETE EMBARGO

54. A complete embargo on non-Communist trade with Communist

1/ It is presently planned to supply the CNAF by the end of 1955, with 150 F-47's, 75 F-84's, 150 F-96's, 18 T-33's, and 48 B-24's and Privateers. There are about 1750 trained CNAF pilots at the present time, 32 of whom are currently undergoing jet training in the US. If an intensive program of jet transitional training were instituted in conjunction with considerably increased training in maintenance, the CNAF could probably absorb a larger number of aircraft provided they were made available.

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China would have no significant effect on Communist China's military capabilities and only limited effects on its civilian economy. Such an embargo would therefore probably have little or no influence, either as a deterrent or a stimulant, on Communist military policies. The Communists would, however, probably launch an intense campaign of political and economic warfare designed to weaken the unity and resolution of the embargoing powers. This campaign would probably stop short of new identifiable aggression, but might include (a) efforts to precipitate strikes and internal disorder within the territories of the embargoing powers, (b) increased military pressure on the borders of Hong Kong, Macau, Indochina, and possibly Burma, and (c) increase in logistical and technical aid to Communist rebels in Indochina, and possibly in Burma.

B. NAVAL BLOCKADE

55. Communist reaction to a naval blockade of Communist China would probably be more cautious if the UN, rather than the US, were the blockading authority. In any event, the Communist reaction would almost certainly include an intense campaign of political warfare that would probably include any or all of the measures noted above in the case of naval embargo. In addition, Communist China would

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almost certainly commit its air and naval forces against the blockading forces with covert Soviet assistance and might launch attacks against Hong Kong and/or Macau, particularly if these territories were in any way assisting the blockading powers. Communist China would almost certainly react to a Chinese Nationalist blockade effort by committing its air and naval forces against Chinese Nationalist blockading forces, and might launch air strikes against naval and air installations of Nationalist China. For its part, the USSR would probably test the resolution of the blockading forces by attempting to send ships through the blockades. We believe it unlikely that the USSR would regard incidents connected with the stopping of such ships as a casus belli, but the USSR would exploit such incidents to create dissension among the non-Communist powers.

56. A blockade would probably result in some interference with military shipments and might discourage the Chinese Communists from undertaking new military operations with large logistical requirements, while deployment of the blockading force along the Chinese coast would incidentally provide a further deterrent to a Chinese Communist invasion of Taiwan. Imposition of a blockade would almost certainly not in itself compel the Communists to abandon their present policies in Korea or elsewhere in the Far East. However, a Western blockade would cause them to reappraise Western intentions in the light of the action.

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C. AIR BOMBARDMENT OF LINES OF COMMUNICATIONS

57. It would be extremely difficult, if not impossible, to limit air bombardment of Communist China solely to attacks on lines of communications, since such action would necessarily involve air operations against all elements of the Chinese Communist air defense system. We believe that the sustained interdiction of Communist Chinese lines of communication, combined with a naval blockade, would seriously reduce Communist military capabilities in Korea and elsewhere in the Far East. We believe that such interdiction and blockade would not compel or induce the Communists to make peace in Korea. The Chinese Communists would react to an interdiction by making a maximum air defense effort in China and Manchuria. Units of the Soviet Air Force in the Far East would participate in the air defense effort, particularly in Manchuria, ostensibly as a part of the Communist Air Force in China. The Communist Chinese would probably also employ their air capability against US/UN bases in the Far East. We believe that if the interdiction and blockade should threaten the economic and political stability of Communist China, Soviet aid to Communist China would probably be increased, if necessary to the point where Soviet forces would be committed against US forces over US/UN-held territories and adjacent waters.

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57a. The Communist Chinese would probably react to a Chinese Nationalist effort to bombard lines of communications by strengthening their air defenses in East China and might retaliate by air action against territory held by Nationalist China.

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